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The President's Daily Brief

January 19, 1977

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EGYPT: Only strong police action or a reversal of the austerity measures imposed on Monday is likely to restore order.

In an effort to reduce an enormous state budget deficit, Egypt announced that it would reduce price subsidies on many consumer goods and impose much higher tariffs on others. Although a smaller deficit will reduce inflationary pressures in the longer term, the immediate effect of the austerity measures has been sharply increased retail prices on many goods.

Egyptian officials last night announced that they are "ready to review" the measures, but this will only partially defuse popular discontent. Continued violent demonstrations could threaten President Sadat's position, and the minister of interior has threatened to use force if the violence resumes.

Proposed curbs on military spending as an alternative to civilian austerity are believed to have been successfully resisted by the defense establishment.

The government may have deliberately moved ahead too forcefully and rapidly in order to demonstrate to the International Monetary Fund that such reductions are politically infeasible.

IMF officials, who have been urging reductions in price subsidies, are currently in Cairo. Sadat and Prime Minister Salim until now have resisted IMF demands even for gradual imposition of economic reforms lest this increase popular dissatisfaction.

The US consulate in Alexandria reports that the demonstrators seem to have little organization or leadership.

The same apparently is true in Cairo, indicating an alarming degree of spontaneity and a widespread depth of feeling over economic grievances, which had been

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growing in intensity before the austerity measures were imposed. In this atmosphere, political agitators should have little difficulty stirring up further trouble.

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SYRIA: Syrian President Asad has privately stated his determination to prevent Palestinian footdragging from blocking progress toward a Middle East settlement.

Asad had told a Time correspondent in the course of an interview published this week that refusal of the Palestine Liberation Organization to attend the Geneva conference would not "cause paralysis" among the other Arabs.

Privately, Asad expressed himself much more forcefully, according to Time correspondent Wilton Wynn. He indicated impatience with the PLO's inability to devise a clear-cut policy on either negotiations or future Palestinian statehood.

Asad's remarks--both public and private--are a marked departure from his position a year ago, when he demanded that any further Arab-Israeli territorial negotiations must involve the PLO.

His willingness now to negotiate without the PLO if it is not ready, and his public notice to the Palestinians that he will not wait long for their acceptance of negotiations are an indication of his increased confidence since the Lebanon intervention and the Palestinian setbacks last year.

Zuhayr Muhsin, leader of the Syrian-controlled Saiqa fedayeen organization, who was undoubtedly reflecting Asad's views, told the Time correspondent that it might be possible to hold the Geneva conference without the PLO. He said that later the PLO could discuss its "status"--presumably meaning independent statehood or an arrangement with Jordan--directly with the Arab states.

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Asad's public position goes further than that of Egyptian President Sadat, although actually the two leaders probably are not far apart.

Sadat has been privately trying to force the PLO to make concessions. Publicly, he still insists that the PLO must attend the Geneva conference and must gain independent statehood.

Except for minor tactical differences, Asad's public remarks essentially express Sadat's private desires. Asad's move in going public should make it easier for Sadat to continue his effort to bring the PLO to a more accommodating posture.

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USSR-US: General Secretary Brezhnev has made a pointed call for progress on arms control issues between the US and USSR on the eve of President-elect Carter's inauguration.

In a speech yesterday, Brezhnev urged the completion of a SALT II accord based on the Vladivostok outline "in the nearest future," adding that the USSR was prepared to conduct "businesslike talks" on improving the Nonproliferation Treaty and reaching agreement on mutual force reductions in Central Europe. He noted that discussions on the latter could be held at "any level and at any venue."

The Soviet leader also got into the US intelligence controversy over Soviet strategic objectives by terming allegations of Soviet efforts to reach superiority in the arms race as "absurd and totally unfounded." Soviet media have hitherto ignored the fact that a central issue in the US debate is whether Moscow is trying to achieve military superiority.

Soviet commentary has also failed to acknowledge that the Soviet civil defense program is at issue

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in the current debate, although Brezhnev stressed that the Soviets will continue to "perfect their defenses" and "never sacrifice the security of their country."

Meanwhile, Soviet analysts are becoming less cautious in evaluating the new US administration's cabinet and are giving for the most part positive ratings.

--Harold Brown was described as a dove on disarmament, who has called for "radical steps" in that field.

--Cyrus Vance was similarly described as favoring arms limits and better US-Soviet relations.

--Michael Blumenthal was noted for favoring increased foreign trade.

These open remarks point toward an early private sounding of President-elect Carter's position on East-West relations, particularly in the area of arms control. The Soviets for the next few months undoubtedly will present their own intentions in the best possible light in order to gauge the responses of their counterparts.

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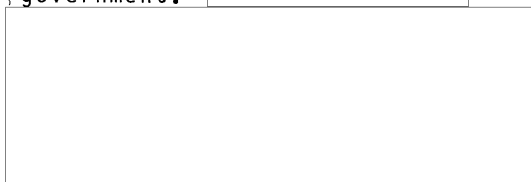
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NOTES

The South Africans have announced that Prime Minister Vorster and Ivor Richard, British chairman of the recessed Geneva conference on Rhodesia, will discuss new British proposals for a UK security role in a Rhodesian transition government.

Richard, who will then meet with Rhodesian Prime Minister Ian Smith, would like to have strong backing from Vorster to help persuade the Rhodesians to accept the new proposals. Smith will not find the British proposals easy to accept.

The black nationalists and the white Rhodesians each have demanded control over the defense and security ministries in a transition government. 25X1



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Indian Prime Minister Gandhi has opted to hold an election for the lower house of parliament in March, reversing an apparent earlier decision to wait until 1978.

A number of factors probably contributed to her change of mind:

--She has made progress in her efforts to gain control of politics in the 22 states.

--She has had considerable success in intimidating the opposition. The recent release from prison of many opposition politicians reflects her confidence in their inability to present a serious challenge to her, and is an attempt to give the election an appearance of fairness.

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--Her son Sanjay has increased his political following and, as the result of extensive touring, is now a nationally known figure. The Gandhis appear to have defeated efforts by pro-Soviet Communists and Congress Party left-wingers to limit the growth of his influence.

--The economic situation is good, but it could deteriorate substantially if next summer's rainfall is scant.

Gandhi may have felt that an election would help India's international image, especially because neighboring Pakistan, and probably Sri Lanka, are holding elections as scheduled this year.

* * *

A North Korean party and government delegation headed by Premier Pak Song-chol is scheduled to arrive in the USSR today for a three-day visit.

This will be the first opportunity for a high-level exchange of views in nearly a year, but the visit is not likely to produce much in the way of substance. Little sophisticated Soviet military equipment has been observed in North Korea in the past three years. Moscow

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_____ is continuing to assist on a number of industrial plant projects. 25X1

Soviet - North Korean relations have been decidedly cool in recent years. The USSR recognizes that Chinese influence is predominant in Pyongyang and sees Soviet interests as being best served by preserving the status quo on the Korean peninsula. During the tense period following the Panmunjom incident last August, Soviet

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officials, in private remarks to the US, quickly dissociated the USSR from what they termed President Kim Il-song's penchant for adventurism.

The North Koreans probably will make another attempt to arrange a visit by Kim. He wants a visit to balance his highly publicized trip to Peking in the spring of 1975, but because of Moscow's desire to get off to a good start with the new US administration, the USSR is not likely to receive Kim any time soon.

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*Two Soviet naval IL-38
antisubmarine warfare
aircraft flew yesterday
from Tashkent to Somalia,*

[REDACTED]

Soviet IL-38s last visited Somalia from November 22 to December 14. On December 9, they flew a maritime reconnaissance mission over a US naval task group, led by the amphibious assault ship USS Guam, then en route to a port visit at Mombasa, Kenya. [REDACTED]

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